

Repeat: Never Lend Money to a Friend

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My friend Lisa recently posed a question that has long plagued many people: When do you say "no" to a friend or relative in need of money?

Lisa, it seems, has a friend who has called several times in the past couple of years, usually looking to borrow money. Lisa has always helped out, largely because she has a big heart and in part because her friend is a single mom struggling to raise her child without the help of the father - a situation, Lisa recognizes, "that can't be easy."

Still, whenever Lisa answers the phone and hears her friend, she cringes. "She calls only when she's desperate," Lisa says. "I feel the tension. It would be nice for her to call and just say, 'Hi, how are you?'"

We all have heard the warnings about the dangers of lending to - or borrowing from - friends. Don't do it, we're told. It only means trouble. You'll end up regretting it. And yet...

Sometimes you want to help. Sometimes you feel compelled to help. Sometimes you just don't know how to beg off without sounding like some kind of Scrooge.

And so you say yes. And then you discover that everybody was right: When money comes between friends, the biggest risk is that you stand to lose both.

Lending money to friends, or borrowing from them, is rife with all sorts of sticky issues both sides often are loath to confront. Should you, the lender, charge interest? And if so, at what rate? Should you, the borrower, offer to pay interest to save your friend the awkwardness of having to suggest it? Where should the lender rank among the borrower's list of creditors? After all, it's convenient to avoid a friend when Visa has a hit man gunning for you. And how do you, the lender, bring up the topic of repayment when the payback has been slow in coming?

A woman I work with found herself in a cash bind several years ago, and a friend with a hefty bank balance offered to front her the \$3000 she needed. She accepted and agreed to repay him in equal installments over 10 months. Then one month, she says, "I was extremely busy and simply forgot that I hadn't given him a check. He brought it up and I was humiliated. It was just so embarrassing."

From that experience she realized that loans between friends, and even between extended family members, create an imbalance in the relationship and puts everyone involved in a clumsy position. Suddenly, she says, "you're not on an even playing field. You have an obligation to them and they hold sort of a power over you, even if they don't make a big deal out of it."

"It's very uncomfortable," my friend says. "I was so relieved when I paid all the money back. I vowed never to do it again."

As uncomfortable as it can be for the borrower, as a lender you face an equally impossible situation. Dare to rebuff a request for a loan, no matter how graciously you handle it, and you risk damaging the relationship. Agree to the loan and you risk possibly never seeing your money again, creating animosity and resentment and potentially destroying a friendship over money.

In law school, Laura, a friend in New Mexico, lent a friend \$100 - a princely sum to college student. Several times Laura tried to recoup the cash, only to hear, "I'll have the money next week." Eventually, Laura gave up, on both the money and the friend.

"I was still angry that she didn't seem to feel obligated to pay it back, which made me not want to be around her anymore," Laura says. "End result was a total lose-lose: no money, no friend."

Family is no different. In fact, saying "no" can be magnitudes more difficult - as can getting your money back.

"You want to help your family because, well, because they're your family," says my colleague Carlos. "It's the right thing to do. You don't want your sister-in-law to face bankruptcy or something" if you have the money to help

prevent it. Carlos recently lent money to two family members, one seeking to avoid disgruntled creditors, the other needing cash for a down payment on a house.

With family, Carlos says, "you have to go into the loan expecting to be the last one paid, and expecting that they will offer to pay interest but knowing that they won't. And you shouldn't charge it anyway." And, besides, he says, who wants to go after a family member who's slow to cut you a check?

That's not to say frustrations don't simmer. Alex, a New York friend, recently says she lent her kid sister "a bunch of money" when the sister overextended herself at a school auction. Alex never expected to be repaid, "but truth be told," Alex says, "she hasn't even offered or brought it up and it's kind of bugging me, especially since she is vacationing at the moment in the south of France."

The one sometime exception to all this is when a parent lends money to a child. In these cases, more often than not, the parent's aren't really expecting to be repaid; they're lending the money out of love and obligation.

That doesn't mean parent-child loans don't have their own special traumas, of course. One colleague tells of borrowing money from his parents - and then repaying them. But he has a sister who borrowed even more, and most likely will never repay. "I don't know whether to be annoyed at her for not paying, or annoyed at myself for paying" he says. Either way, it has made for some tense conversations with his sister over the years.

So what's the answer?

A good rule of thumb mentioned by more than one of my friends holds that if someone is so desperate that they need to borrow from family and friends, then they're probably not a very good credit risk to begin with. So if you're going to lend money, says a colleague, "you have to be OK knowing that you're never getting it back." His philosophy is that "if you can afford to give the money, then give it. Otherwise, don't. Because, ultimately, you're just going to lose your friend or your money."

That's precisely what Lisa, my friend in San Diego, doesn't want to happen. She still likes the woman who calls for

loans, and she doesn't want the money - roughly \$1,200 at this point - to come between them.

Yet Lisa knows the money is coming between them. So the only solution she sees is to "simply release the money as a gift." Thus, Lisa figures the best option is to just tell her friend to forget the debt.

"No matter how many times a friend says they'll repay you," Lisa says, "you just have to write off the loan for the sake of the friendship."

Or hope they never come asking.

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